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# ECONOMIC AND REVENUE FORECAST

## ECONOMIC AND REVENUE FORECAST

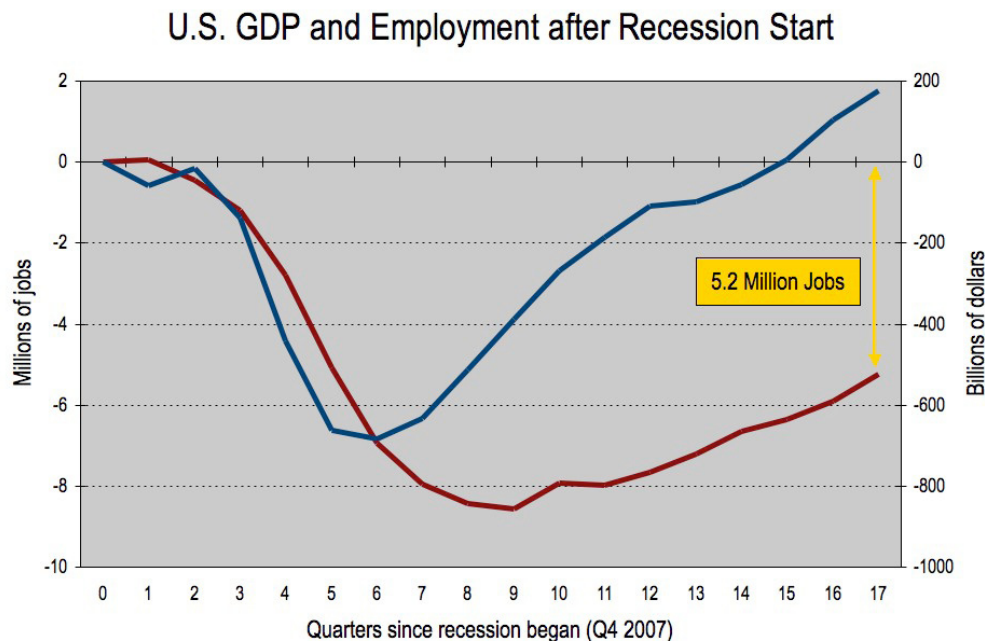
This section addresses the key economic issues underlying the King County budget and identifies the major revenue sources for all county funds. The section includes 1) a discussion of the national and regional economy and forecast, 2) a description of the King County revenue forecast and major revenue sources, 3) a synopsis of the General Fund financial plan and 4) a discussion of how King County government impacts economic development. Additional economic and forecasting information is available through the Office of Economic and Financial Analysis.

Most County revenue sources are sensitive to the performance of the economy, which affects income, employment, property tax assessments, inflation forecasts, and real estate transactions. For example, sales tax revenues are largely driven by income, inflation and employment; when these factors rise, sales tax receipts increase. Similarly, County expenditure projections are directly tied to inflation forecasts since a significant portion of county costs are directly tied to the local Consumer Price Index (CPI). The following section describes the current outlook for the national and local economies, and presents detail on forecasts for revenues supporting County funds. The fund summary for the General Fund is also located in this section, while other fund summaries are located in the throughout the budget document.

### 1. The National and Regional Economy

The National Bureau of Economic Research dated the previous recession from December 2007 to June 2009, however the effects of the Great Recession continue today. As of August 2012, there are approximately 12.5 million unemployed workers in the U.S., and of those 12.5 million, 40 percent have been out of work for 27 weeks or more. In addition, 8 million others are underemployed, meaning they would like to work more hours, but cannot due to lack of demand for workers.

The national economy began a modest recovery in the third quarter of 2009, but it continues to be slow by historical standards. Gross Domestic Product (GDP) growth has occurred in fits and starts, with above average growth (over 3 percent) at the end of 2009 and beginning of 2010, followed by 10 quarters of below average growth. This inconsistent growth has not been enough to sustain a robust recovery and to stimulate the jobs market in a way to achieve a level of unemployment that is more typical for the U.S. economy. The current estimate of annual GDP growth in the 2<sup>nd</sup> quarter of 2012 is 1.7 percent. As the following chart illustrates, GDP levels are back to pre-recession levels, but there are significantly fewer people employed.

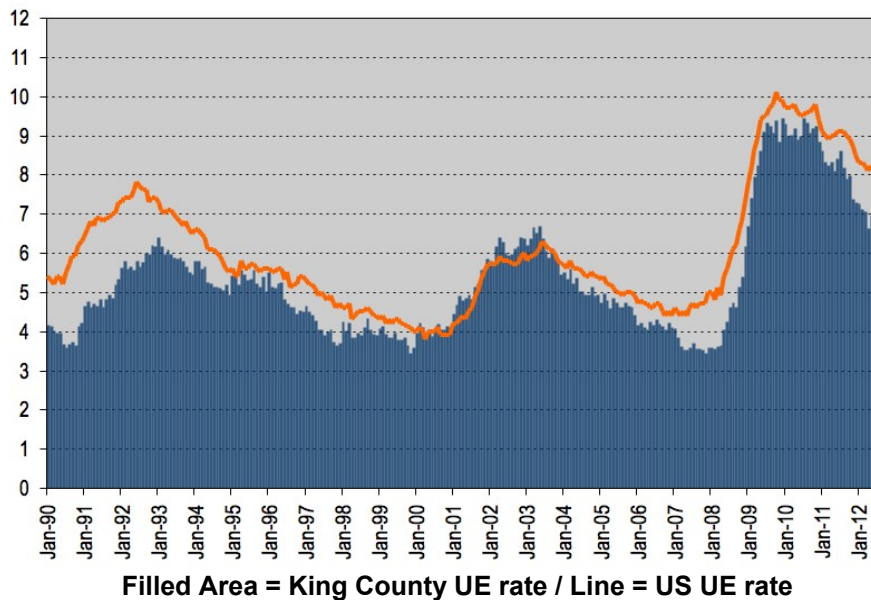


The U.S. economy remains in a fragile state. Internationally, the ongoing economic instability of the Eurozone, continued socio-political upheaval in the Middle East, and a slowdown of the Chinese economy are all risks to the outlook for the world economy. Domestically, the fiscal cliff, political uncertainty, and increasing prices of food and fuel, all add a level of uncertainty that makes it difficult to predict where the national economy will go and how it will impact the Puget Sound region and King County.

The Puget Sound region's employment performance has been relatively consistent with U.S. employment performance, if not slightly better. The July 2012 unemployment rate for King County is about 7.8 percent compared with about 8.5 percent for the state and 8.1 percent for the nation.

### King County & U.S. Unemployment Rate

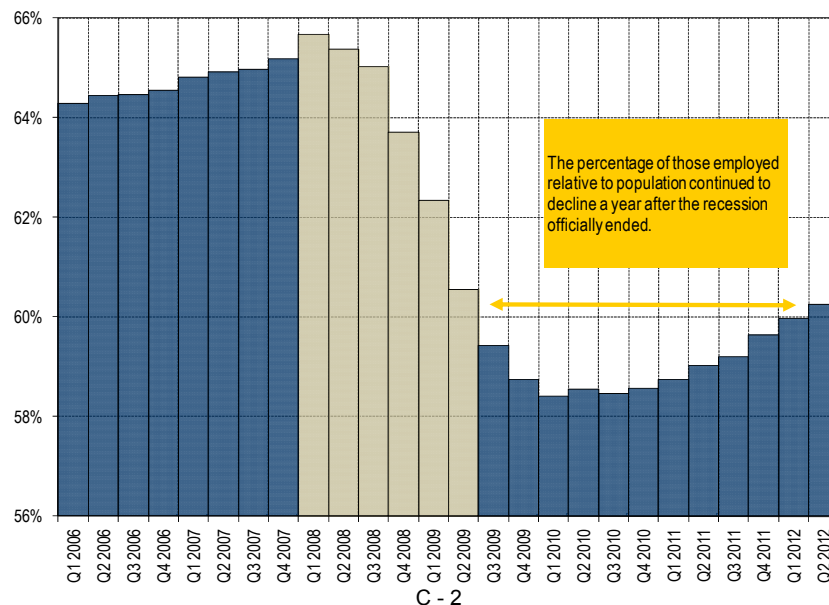
Seasonally Adjusted, January 1990 to July 2012



However, the chart below shows that the ratio of employed persons to the total population still has not reached pre-recessionary levels.

### King County Employment-Population Ratio

January 2006 to June 2012

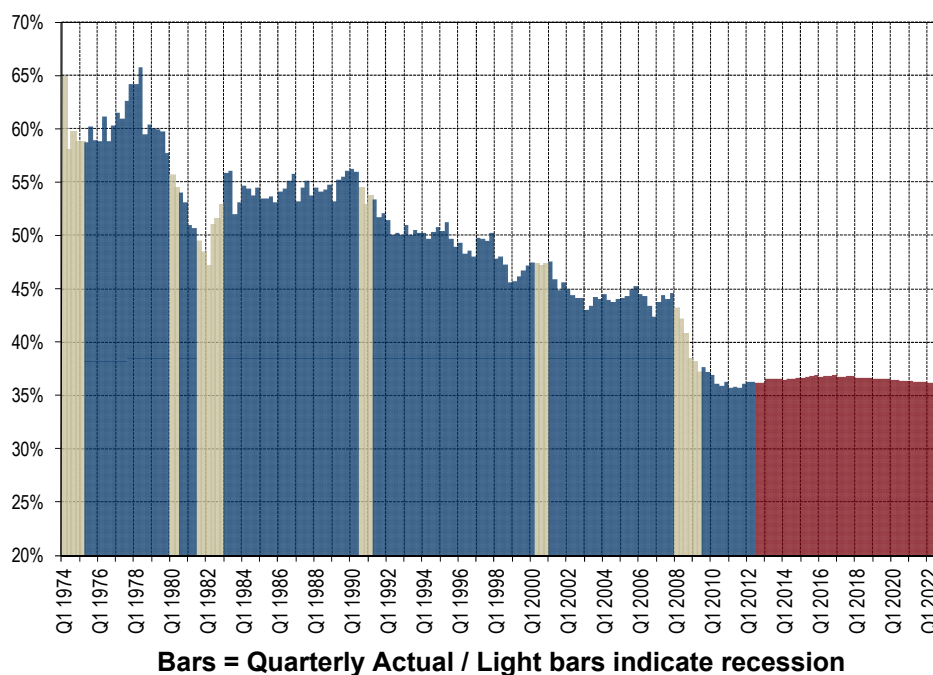


The lag in growth of the employment-population ratio is a common occurrence during and after recessions. This ratio also reflects adjustments in the economy as technology, globalization, changing social attitudes, and shifting demographics change labor demand and labor supply.

As employment levels and patterns have shifted, so have spending patterns. As shown in the chart below, retail sales as a percentage of income have been falling in King County for the last three decades, punctuated by a major drop brought on by the Great Recession. The sales tax has long been criticized for placing a disproportionate burden on lower income households. Over time, the inability to tax internet transactions and a general lag behind personal income growth will prevent King County sales tax receipts from keeping pace with cost of delivering most government services.

### King County Retail Sales-Personal Income Ratio

Stated nominally, January 1974 to December 2022

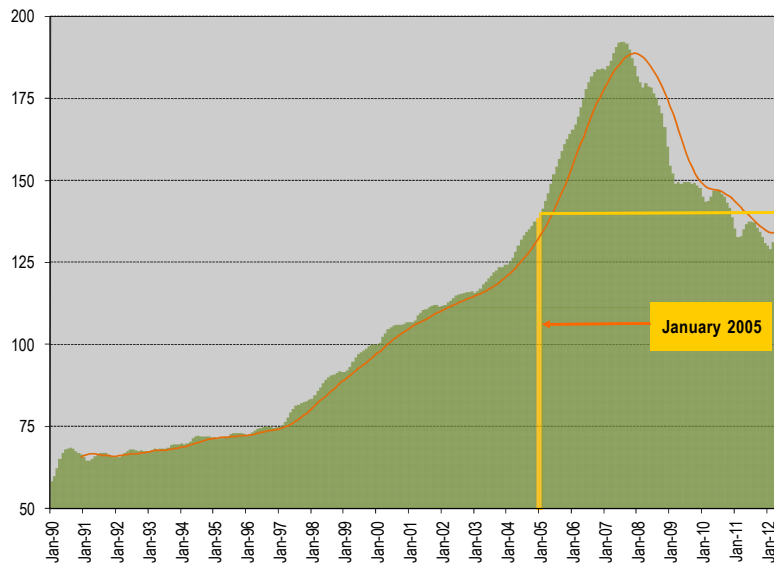


Property taxes are also a significant source of revenue for the state and the county and housing prices have been falling since 2007. Rising rents and incomes should spell the end of falling house prices in the coming quarters. That said, a weak labor market and an abundance of foreclosure inventory will likely prevent a quick turnaround in prices. The Seattle Case-Shiller home price index, pictured below, shows the effect of inflated prices over a short period of time.

For example, the index value in January 2000 is exactly 100. At its peak in July 2007, the Seattle index value was 192, meaning the average annual gain for the previous seven years had been about 14 percent. Considering the long run average of home price appreciation is closer to 3 percent it's not difficult to understand why double digit declines in home price values have occurred every year since the peak of the housing bubble.

### Seattle Case Shiller Home Price Index

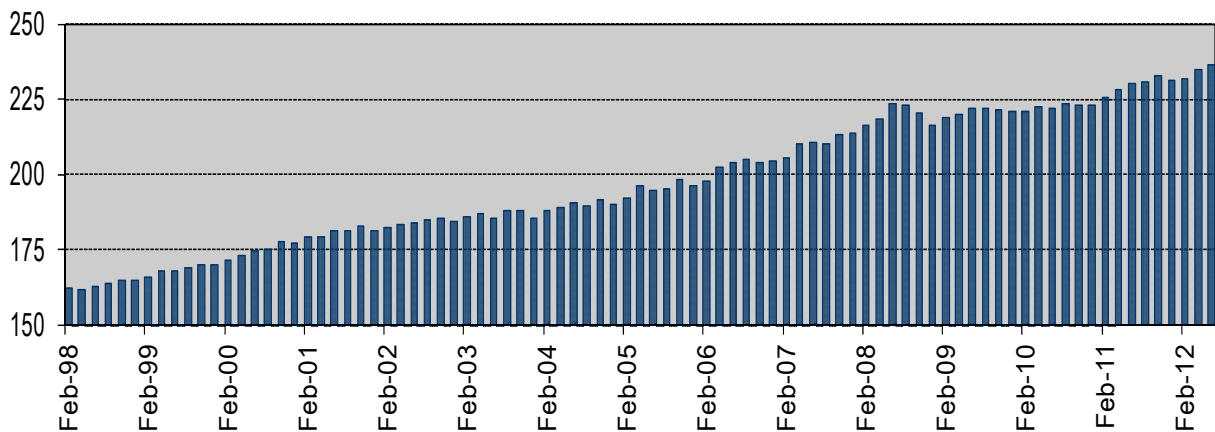
January 1990 to June 2012



As noted, local inflation is a key driver of county expenditure levels because most county labor contracts include adjustments for the cost-of-living that are derived from local inflation figures. In addition, price increases affect the cost of county purchases, such as service contracts, health care, leases, food, gas, technology equipment, and vehicles. Inflation in the Seattle area has been on the rise since 2010. Of particular concern is the rising cost of food resulting from regional droughts and gas prices which could spike at any time. In addition, while healthcare cost increases have been slowing, those costs could begin to increase again as the population ages and demand increases.

### Seattle Baseline Inflation

Seattle CPI-W February 1998 to June 2012



## 2. **King County Revenue Forecasting**

The health of the national and local economy has a significant impact on many of the revenue sources within the County. The drop in the wealth of U.S. households, high unemployment, and flat prices (until last year) have significantly reduced the amount of sales taxes collected by the County in recent years. In addition, the Real Estate Excise Tax (REET) has seen drastic reductions in collections since the peak of the housing boom as both the price and volume of sales have shrunk considerably. Annexations and years of falling assessed values in the unincorporated areas have led to a capping of the Roads levy, which has, in turn, caused major drops in the amount of property tax revenue the County receives for road maintenance.

In 2008, King County voters passed a charter amendment that changed how revenue forecasting for the King County budget is accomplished. The amendment required the County Council to establish a Forecast Council to adopt economic and revenue forecasts that must be the basis of the Executive's budget proposal and established a new agency called the Office of Economic and Financial Analysis (OEFA) to perform the forecasting work. The Forecast Council is made up of the Executive, two County Council members and a County employee with knowledge of budgeting and finance appointed by the Executive (currently the Director of the Office of Performance, Strategy and Budget). OEFA provides forecasts to the Forecast Council that are then reviewed and adopted.

OEFA uses statistical models to forecast County-specific economic variables (e.g. property values and local inflation) and the major County revenue streams (e.g. sales taxes). In general, the models use local or national forecasts for variables like personal income, consumer prices and employment. The forecasts for these economic variables are sourced from two economic forecasting services and Washington's Economic and Revenue Forecast Council model. The table below lists some of the inputs into their models.

**Economic Assumption Summary**

Inputs to forecasts dated August 22, 2012

	2011	2012	2013	2014	2015
<b>King County</b>					
Nominal Personal Income (% chg, PSEF)	5.5%	5.5%	4.9%	5.0%	5.2%
Unemployment Rate (ratio, PSEF)	8.1%	7.1%	6.9%	6.6%	6.3%
Taxable Sales (% chg, PSEF)	4.1%	6.6%	5.8%	5.1%	5.8%
Housing Permits (% chg, PSEF)	4.3%	35.9%	39.1%	6.3%	7.8%
Consumer Price Index - U (% chg, ERFC)*	3.3%	1.5%	2.0%	2.4%	2.3%
Construction Employment (% chg, PSEF)*	-3.0%	5.2%	7.5%	5.4%	3.7%
<b>Washington State</b>					
Nominal Personal Income (% chg, ERFC)	4.4%	3.8%	5.1%	5.6%	5.4%
Unemployment Rate (ratio, ERFC)	8.9%	8.1%	7.8%	7.4%	7.0%
Multi-Family Permits (% chg, ERFC)	78.9%	11.0%	6.7%	6.2%	5.0%
<b>United States</b>					
Real GDP (% chg, GIB)	1.8%	2.1%	1.8%	2.8%	3.5%
Unemployment Rate (ratio, GIB)	9.0%	8.2%	8.0%	7.7%	7.0%
Ten-year Treasury Yield (level, GIB)	2.8%	1.8%	2.2%	3.6%	3.9%
Consumer Price Index (% chg, BCCF average)	3.2%	2.0%	1.9%	2.2%	2.2%
House Prices (% chg, ERFC)	1.4%	3.3%	-1.0%	-1.2%	0.9%

\* Puget Sound Region

GIB = Global Insight Baseline Forecast - August 2012

ERFC = Washington State Economic &amp; Revenue Forecast Council - June 2012

PSEF = Puget Sound Economic Forecaster - June 2012

BCCF = Blue Chip Consensus Forecast - August, 2012

**King County Revenues**
***Total County Revenues***

King County projects total revenues of over \$4.5 billion in 2013<sup>1</sup>, which King County distributes to more than eighty distinct operating and capital funds. The largest funds include those for transit, wastewater, surface water management, roads and the General Fund. The largest revenue sources are charges for services, other revenues and taxes. Together they account for over eighty percent of all revenues. Taxes include several major property tax levies, four different sales tax assessments, and taxes on real estate transactions. Charges for services include both direct contracts, interfund payments, and other services provided by the County.

Taxes account for an estimated twenty-six percent of total operating revenues (excluding capital project and biennially budgeted 2013 revenue). The major tax sources for the County include property taxes, sales and use taxes, hotel and motel taxes, and telephone excise taxes to support the enhanced-911 system. Total King County tax revenue is projected to be \$1.2 billion in 2013, virtually unchanged from the adopted 2012 budget. These revenues support operating expenses, debt service, and some capital projects. Property taxes are the largest single tax source for the county, with a proposed levy of approximately \$610 million in 2013, including \$91.6 million levied for Emergency Medical Services, of which \$34 million is disbursed directly to the City of Seattle. The total levy also includes the \$22.9 million levy for the provision of transit service which was created in 2010.

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<sup>1</sup> Interfund transfers, overhead rates and other transactions are duplicates in some funds in the total revenue figure of \$4.5 billion.

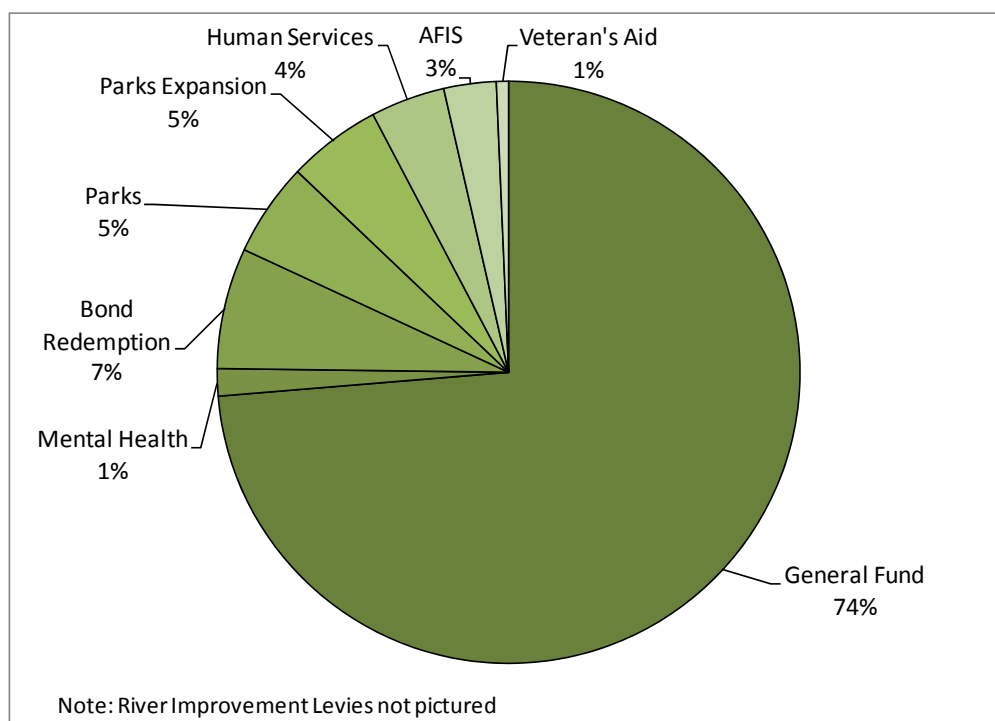
### Property Tax

Property taxes are levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices and other buildings. In addition, property tax is levied on business machinery and equipment. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district's rate applied to the value of a given property. In the County, the total property tax levy varies based on the make-up of the various taxing districts including fire, hospitals, cities, and the countywide levy. The King County assessor determines the fair market value of properties, which is intended to generally reflect 100 percent of the property's market value.

In 2012, the total countywide levy rate was \$1.21 per \$1,000 of assessed value. This includes the undesignated general fund and the dedicated millage for mental health/developmental disabilities programs, human services, veterans' aid, inter-county river improvements, limited tax bond redemption, and voter approved lid lifts. For an owner with a \$350,000 home value, the total countywide tax liability was \$425.17 in 2012.

The chart below illustrates the various components of the County's 2012 property tax: the non-voted general purpose levy, and the four voter approved levies known as lid lifts because the voters authorized taxation above the statutory lid or limit. The 2013 property tax rates cannot be known with certainty until final assessed values are available in late 2013.

**2012 Countywide Levy**



The countywide levy is only one part of the total property tax bill due from County residents. Property taxes are collected through the countywide levy, the unincorporated area levy, the emergency medical services levy and the conservation futures levy. The following funds all receive property tax collections in King County:

- General Fund
- Mental Health
- Veterans Service
- Inter-County River Improvement
- Automated Fingerprint Identification System (AFIS)
- Parks Operating
- Parks Capital
- Veterans Levy
- Human Services Levy
- Emergency Medical Services (EMS)
- Conservation Futures
- Roads
- Flood Control
- Ferry District
- Transit
- Unlimited General Obligation Bond Redemption

The annual growth in property tax revenue is restricted by state law in two ways. First, the state limits growth in the amount of tax revenue a jurisdiction can collect: currently one percent annually plus the value of new construction. Previously, beginning in 1973, state law limited the annual growth of the County's regular levy (i.e. general purpose plus voted lid lifts) to 6 percent. In 2001, Washington voters approved Initiative 747 (I-747) which changed the 6 percent limit to the rule noted above. In November 2007, I-747 was found to be unconstitutional by the State Supreme Court. However, the governor and state legislature in a special session reenacted Initiative 747 with House Bill 2416, and it was adopted in late 2007.

The property tax rate is also limited by State statute; the total levy for the County, cities and junior taxing districts is capped at \$5.90 per \$1,000 of assessed value (AV). This includes limiting the countywide levy to \$1.80 per \$1,000 of AV, and the unincorporated areas levy to an additional \$2.25 per \$1,000 of AV. Over the past few years, the assessed value of property in the unincorporated area has declined and the unincorporated levy has reached its statutory limit. The combination of levy limits, the reduction in assessed values, and annexations will reduce County Roads Fund property tax collections from \$72.6 million in 2012 to \$64.6 million in 2013.

The overall countywide property tax collection for County budgeted funds is projected to be \$584.6 million in 2013, down from \$590.8 million in 2012. The decrease from 2012 is due to the statutory caps that limit both the Roads Fund and the EMS Fund. This amount includes an enhanced parks' operating levy and a parks' capital levy, both of which were authorized in the August 2007 primary election and will be up for reauthorization in 2013. The countywide levy also includes the Automated Fingerprint Identification System (AFIS) lid lift of \$11.1 million, which has been reduced below the limit approved by voters because of operational efficiencies in the AFIS program. Voters will be given the opportunity to renew this levy in November of 2012. The existing veteran's and human services lid lift was extended in 2011 for another six years (through 2017). The levy will fund capital facilities and services that reduce medical costs, homelessness, and criminal justice system involvement with half of the proceeds supporting veterans and their families.

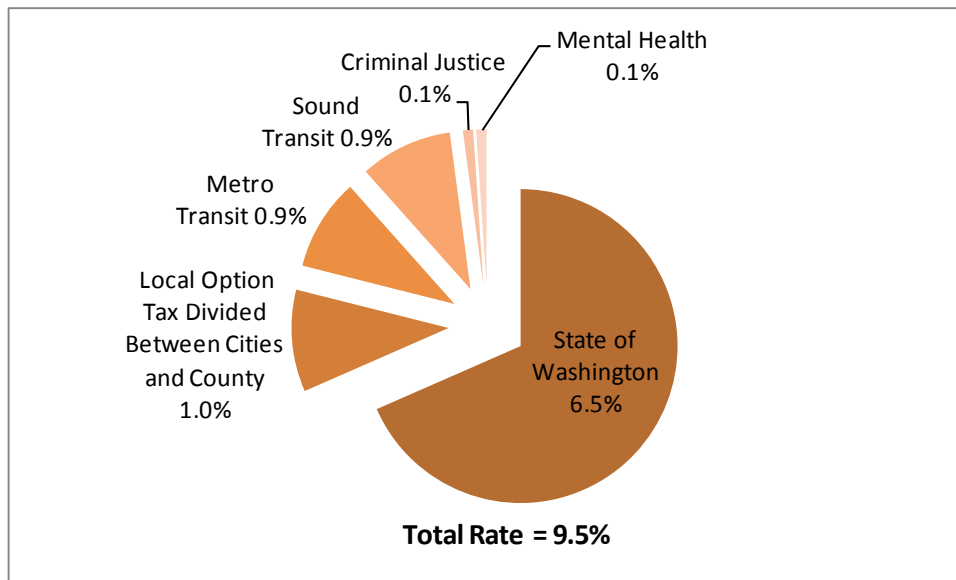
### ***Retail Sales Tax***

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in the County. The tax is collected from consumers by businesses that, in turn, remit the tax to the state. The state

provides the County with its share of these revenues on a monthly basis. The sales tax rate is 9.5 percent for most taxable transactions.

The basic sales tax rate is a composite of separate rates for several jurisdictions. The county's portion is 1 percent of sales in the unincorporated area and 0.15 percent of the sales in the incorporated areas. The County receives sales tax beyond the basic rate to support transit, criminal justice and mental health programs.

### **2013 Sales and Use Tax Rates in King County**



The sales tax is primarily affected by changes in the economy and by the geographic areas from which it is collected. The county's public transportation, mental health, and criminal justice programs receive revenues from countywide retail sales, with unincorporated areas constituting less than four percent of the tax base. In contrast, over 20 percent of King County's General Fund sales tax revenue is collected in unincorporated areas. Differences in the geographical composition of taxable retail sales also complicate analysis of revenue over the course of the business cycle.

The following funds receive property tax collections in King County:

- General Fund
- Children and Family Services
- Transit
- Mental Illness and Drug Dependency

Legislative changes have also impacted sales tax collections for King County. In 2008, Washington State entered into the Streamlined Sales Tax agreement and began implementation in July 2008. Previously, the sales tax was based on the jurisdiction from which the product was shipped, with that jurisdiction receiving its local option sales tax. Under sales tax streamlining, the destination of the product determines the jurisdiction that receives the local portion of the sales tax. Because this negatively impacted some jurisdictions, the State is providing mitigation payments to some jurisdictions including King County. This increases sales tax revenues relative to what they would have been without mitigation. A second policy change was the elimination of the exemption on candy and bottled water that went into effect in 2010. This change had the effect of expanding the eligible sales subject to the sales tax. However, in November 2010, voters re-instated this sales tax exemption. Finally, in late 2010, the legislature voted to allow an amnesty period for businesses that owed back sales taxes. This amnesty resulted in many firms paying those taxes and resulted in additional revenues to the County in 2011.

### ***Contract Revenue***

Contracts are a significant source of funds for several agencies. By contracting with the County, cities are able to take advantage of the County's economies of scale, as well as the expertise and experience of its workforce. Examples of contract revenues are the Sheriff's provision of deputies to cities and transit agencies, District Court contracts and regional animal services. These contract revenues are further explained in the individual agency sections. General Fund contract revenues are forecast to be \$78.8 million in 2013 and \$81.5 million in 2014.

### ***Revenue from Other Entities***

The County receives revenue from federal, state and local governments. These revenues include capital and operating grants for various programs and liquor board profits, which will be reduced in 2012 and beyond as a result of the privatization of liquor stores.

### ***Licenses and Permits***

The County requires individuals and companies conducting business in unincorporated King County to obtain a business license. Some business activities require additional licenses referred to as professional and occupational licenses. The County also assesses fees for public-safety purposes (e.g. pet ownership) and charges a variety of fees for the use of public facilities and rights-of-way.

### ***REET***

King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the County. REET consists of two 0.25 percent taxes on real estate transactions. REET revenues were high during the peak years of the housing boom (2005-2007). Recent collections have dropped dramatically as the housing market has corrected. Each is forecasted at just over \$3.4 million in 2012. This compares with over \$11 million each in 2005 and 2006. REET collections are also adversely impacted by annexations.

**Summary of the General Fund Financial Plan**

This section provides a synopsis of the General Fund financial plan including revenue and expenditure trends, reserves, and a General Fund outlook. The revenues and expenditures for General Fund programs are further described in the specific budget book chapters. Additional longer range projections are shown in the fund financial plans. For additional detail, consult the financial plan on the following page as well as the footnotes detailing the underlying policies and assumptions.

**Revenues**

Since 2008, General Fund sales tax collections have declined to a low in 2010 and have since started to increase. Current forecasts expect sales tax revenues to rebound to 2007 highs in 2014 or 2015. Property tax continues to steadily increase, despite the reduction in assessed, because the County's regular tax rate is still far below the legal limit. In contrast, contract and interfund revenues are expected to decline substantially as the demand for some county services has decreased. For example, service contract revenues from the state Department of Corrections are expected to decline from \$14.9 million in the 2012 Adopted Budget to \$5.6 million in 2013. Service contracts for Real Estate Services and the Sheriff's Office traffic enforcement unit are expected to face similar declines in demand. The General Fund plan anticipates that this revenue decrease is permanent and will continue beyond 2013. In balance, the decline in demand is expected to be partially offset by a decrease in expenditures for these same services. Interest earnings remain low. The General Fund's largest revenue source, property tax, is expected to increase slightly. In 2013, revenues are expected to increase by \$5.1 million (0.8 percent increase) from 2012 Adopted levels to approximately \$676.6 million.

Beginning in 2013, property taxes used to service general obligation debt will be deposited into the General Fund and then transferred to the debt service fund on an as needed basis. This results in higher revenue and expenditures in the General Fund, but the impact of this technical change is net zero.

**Expenditures**

For 2013, General Fund expenditures are forecast to be approximately \$684.0 million. This is \$3.4 million higher than 2012 Adopted expenditures, a year over year growth rate of 0.5 percent. Expenditure growth has fallen in 2012 from historic levels due to cost reducing efficiencies, savings from benefits and labor costs, and reductions as a result of falling demand for services and contracts.

In addition to providing ongoing funding for criminal justice and general government services, The General Fund provides support for non-general fund programs through a series of transfers. The total General Fund transfer amounts for 2013 are listed below:

- DCHS: \$1,130,283
- Public Health: \$25,411,520
- Regional Animal Services: \$2,519,000
- DDES: \$1,703,535
- KCIT Capital: \$3,039,418
- FMD Capital: \$7,000,000
- FMD Operating: \$228,626
- WLRD: \$777,299
- LTGO: \$24,553,301

**Reserves and Fund Balance**

As a result of General Fund underexpenditures and 2011 revenue collections higher than projected, actual starting fund balance in 2012 was higher than anticipated. This additional fund balance was used for

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expenditures carried over into the 2012 budget, approved supplemental expenditures throughout the year, and to offset the reduction in contract revenue in 2012. The 2013 ending fund balance forecast is \$93.0 million, which is \$5.1 million higher than 2012 Adopted levels. The 2013 Proposed Budget maintains the undesignated fund balance at 6.5 percent which is in line with County policies and financial practices of other AAA bond rated governments.

The 2013 Proposed Budget includes adjustments to existing reserves, eliminates numerous reserves that have been or are expected to be drawn down by the end of the year, and creates one new reserve. These reserves are set up to fund specific activities, to offset known future increases in cost, and to protect against uncertainty.

The Parks Partnership reserve has been replaced by an Annexation reserve to help facilitate annexations in the next two to three years. While there is not a current obligation for this reserve, it is prudent to set aside this fund balance now in anticipation of expenditures in the not so distant future.

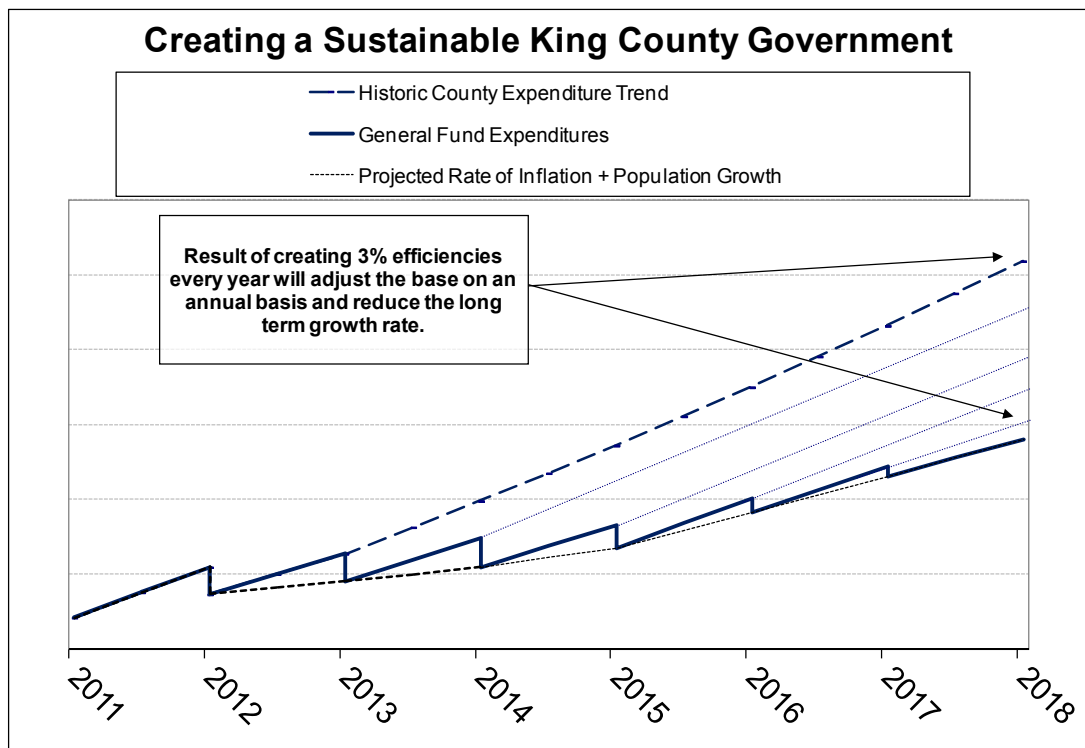
The reserves for BNSF permitting costs, COLA uncertainty, Sales Tax uncertainty, and KCSO Fleet Replacement have all be drawn down or will be by the end of the year and are not proposed for 2013. These costs are included in the appropriate agency budgets in 2013.

The Department of Assessments is working with the Facilities Management Division, Records and Licensing Services, Finance and Business Operations, and the Board of Equalization on a pilot project for a one-stop property service center. This will increase efficiencies for not only DOA, but also RALS, FBOD and the BOE. A reserve of \$300,000, contingent on a future proposal, is set aside for this purpose.

Further information on designations and reserves can be found in the notes later in this section.

### **Financial Outlook**

The General Fund financial plan assumes that agencies will continue to reduce the growth rate in expenditures by approximately 3 percent per year. Over time, this will bend the cost curve and King County's expenditures will grow at an annual level of CPI adjusted for population growth.



The efforts in the areas of Lean, performance management, employee benefits cost containment, and goal planning are expected to help achieve 3 percent efficiencies per year. As the following graph illustrates, if this efficiency target can be met, revenues will be sufficient to fund projected General Fund expenditures for the next few years.

However, there are several economic and operational risks that are outside the control of the county which may impact the financial position of the county including:

- Sales and property tax collections
- Contract revenue
- Food and fuel inflation
- Long term employee benefits and pension costs
- Service demand and population growth

Sales and property taxes are directly influenced by the general direction of the national economy. At a regional level, other jurisdictions continue to feel budget pressures which could result in a reduction in contract service revenue, but could also end up leading to an increase in demand for county services. The county continues to work with other jurisdictions to look for partnership opportunities and to improve service where needed.

From an expenditure perspective, inflationary pressures on food and fuel have a direct impact on the County's costs and also influence labor contracts, which are tied to local inflation. As the most flexible funding source in the County, the General Fund will also be under increased pressure to help other funds in the county, such as the Public Health and the Mental Illness and Drug Dependency funds. Employee benefit and pension costs have been under control the last few budget cycles, but this trend may not continue in the long term and will need to be monitored. Lastly, as King County grows, the demand for services will increase. The county needs to not only contain costs on current services but to build capacity to take on new services. Lean business processes will help build this capacity.

To help mitigate some of the risks highlighted above, the proposed General Fund budget maintains the 6.5 percent ending undesignated fund balance, which is over the required 6 percent minimum. The Risk Mitigation reserve within the General Fund will also be increased to over \$25 million. In addition, the Rainy Day Reserve Fund will be increased to over \$20 million through a one-time contribution from the debt service fund.

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## Summary of 2013 Proposed General Fund Financial Plan (in millions)

	2011 Actual <sup>(a)</sup>	2012 Adopted	2012 Estimated <sup>(d)</sup>	2013 Proposed	2014 Projected	2015 Projected
<b>BEGINNING FUND BALANCE</b>	<b>88.2</b>	<b>92.0</b>	<b>118.7</b>	<b>90.4</b>	<b>93.0</b>	<b>94.8</b>
<b>REVENUES <sup>(b)</sup></b>						
Property Tax	296.9	299.1	301.7	305.0	310.5	315.7
Sales Tax <sup>(c)</sup>	77.5	77.0	87.4	89.8	91.6	96.1
Intergovernmental Receipts	82.0	85.5	73.9	78.8	81.5	84.4
Interest Earnings and Pool Fees	2.4	1.5	2.0	2.1	2.1	2.2
Federal and State Revenue	20.5	21.2	21.6	20.3	20.8	21.4
Fines, Forfeits, Charges for Services, Other	130.5	115.7	105.8	107.8	103.2	103.4
Interfund Transfers	71.5	71.6	71.1	72.8	74.8	77.2
<b>General Fund Revenues</b>	<b>681.4</b>	<b>671.5</b>	<b>663.5</b>	<b>676.7</b>	<b>684.4</b>	<b>700.4</b>
<b>EXPENDITURES <sup>(e)</sup></b>						
Operating Expenditures	(601.5)	(644.0)	(644.0)	(649.4)	(675.7)	(687.8)
CIP Expenditures & Reappropriation <sup>(f)</sup>	(24.4)	(10.7)	(18.6)	(10.0)	(11.0)	(12.1)
Debt Service <sup>(g)</sup>	(24.6)	(25.9)	(25.9)	(24.6)	(22.9)	(22.4)
Operating Supplementals/Carryover/Reappropriations	0.0	0.0	(5.8)	0.0	0.0	0.0
Potential Additional Costs <sup>(h)</sup>	0.0	0.0	(7.6)	0.0	0.0	0.0
Operating Underexpenditures <sup>(i)</sup>	0.0	5.1	10.0	10.0	10.0	10.0
2014 Efficiencies <sup>(j)</sup>	0.0	0.0	0.0	0.0	16.9	0.0
2015 Efficiencies <sup>(j)</sup>	0.0	0.0	0.0	0.0	0.0	19.6
<b>General Fund Expenditures</b>	<b>(650.5)</b>	<b>(675.5)</b>	<b>(691.9)</b>	<b>(674.0)</b>	<b>(682.7)</b>	<b>(692.7)</b>
Accounting Adjustment	(0.4)	0.0	0.0	0.0	0.0	0.0
<b>Ending Fund Balance</b>	<b>118.7</b>	<b>87.9</b>	<b>90.4</b>	<b>93.0</b>	<b>94.8</b>	<b>102.5</b>
<b>DESIGNATIONS AND SUBFUNDS <sup>(k)</sup></b>						
Designations <sup>(l)</sup>	(6.2)	(6.9)	(6.2)	(6.2)	(6.2)	(6.2)
Subfund Balances <sup>(l)</sup>	(4.5)	(2.9)	(5.1)	(4.5)	(3.9)	(3.3)
<b>EXPENDITURE RESERVES</b>						
Carryover and Reappropriation	(13.0)	0.0	0.0	0.0	0.0	0.0
Salary and Wage Reserve	(1.4)	(1.8)	(1.6)	(5.1)	(7.3)	(10.0)
CIP Capital Reserve <sup>(m)</sup>	0.0	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Annexation Reserve <sup>(n)</sup>	(0.4)	(0.4)	(0.4)	(0.6)	(0.6)	(0.6)
Retirement Contribution Stabilization <sup>(o)</sup>	(9.4)	(12.4)	(12.4)	(12.4)	(12.4)	(12.4)
Innovation and Customer Service Reserve <sup>(p)</sup>	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
MIDD Buy-Back Reserve <sup>(q)</sup>	0.0	0.0	0.0	0.0	0.0	(5.0)
Emergent CJ Reserve <sup>(r)</sup>	(1.2)	0.0	0.0	0.0	0.0	0.0
BNSF Reserve <sup>(s)</sup>	0.0	(0.4)	(0.0)	0.0	0.0	0.0
Public Health Reserve for Facility Moves <sup>(t)</sup>	0.0	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
KCSO Fleet Reserve <sup>(u)</sup>	0.0	(0.5)	(0.3)	0.0	0.0	0.0
Sales Tax Reserve <sup>(v)</sup>	0.0	(2.4)	(2.4)	0.0	0.0	0.0
Major Maintenance Reserve <sup>(w)</sup>	0.0	(2.0)	(0.5)	(0.5)	(0.5)	(0.5)
COLA Reserve <sup>(x)</sup>	0.0	(1.2)	(1.2)	0.0	0.0	0.0
Military Pay Supplemental Reserve	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
OPD Reserve	0.0	(3.0)	(1.7)	0.0	0.0	0.0
One Stop Property Service Center <sup>(y)</sup>	0.0	0.0	0.0	(0.3)	(0.3)	(0.3)
Executive Contingency	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Outyear Deficit Reduction Reserve	(28.4)	(1.1)	0.0	0.0	0.0	0.0
Risk Mitigation Reserve	(20.0)	(14.6)	(19.5)	(25.4)	(25.4)	(25.4)
<b>Reserves</b>	<b>(84.5)</b>	<b>(53.2)</b>	<b>(55.0)</b>	<b>(58.8)</b>	<b>(60.5)</b>	<b>(67.5)</b>
<b>Ending Undesignated Fund Balance <sup>(z)</sup></b>	<b>34.2</b>	<b>34.7</b>	<b>35.3</b>	<b>34.2</b>	<b>34.3</b>	<b>35.0</b>
6% Undesignated Fund Balance Minimum	31.7	32.0	31.1	31.5	31.7	32.3
Over/(Under) 6% Minimum	2.5	2.7	4.2	2.7	2.6	2.7
<b>Rainy Day Reserve</b>	<b>16.0</b>	<b>15.9</b>	<b>16.1</b>	<b>20.0</b>	<b>20.1</b>	<b>20.1</b>

## ECONOMIC AND REVENUE FORECAST

### 2013 Proposed General Fund Financial Plan

#### Footnotes

- (a) The 2011 Actual column reflects amounts in ARMS and is consistent with the 2011 Comprehensive Annual Financial Report.
- (b) Revenue estimates for 2012 - 2015 are based on forecasts adopted by the Forecast Council. The percentages indicate the expected annual percent change over the prior year, except for interest earnings, which is stated as the projected annual rate of return.

	2011	2012	2013	2014	2015
Property Tax	Actuals	2.4%	1.1%	1.8%	1.7%
Sales Tax (including sales tax dedicated to criminal justice)	Actuals	-0.9%	2.7%	2.0%	4.9%
All Other	Actuals	Individual Estimates	Individual Estimates	Individual Estimates	Individual Estimates

- (c) Sales Tax forecasts for 2011 - 2014 assume the current sales tax rate.

- (d) The 2012 estimated figures have been adjusted to reflect approved 2012 supplementals and updated forecasts.

Adopted Budget	(680.6)
2011 Carryovers and 2012 Supplementals	(21.3)
Underexpenditure	10.0
Total	(691.9)

- (e) Expenditure estimates for 2014 and 2015 are based on the following assumptions. The percentages indicate the expected annual percentage change over the previous year. The assumed flex rate percentage increase reflects actuarial projections based on current plan design. Expenditures projections have been adjusted for one-time expenditures.

	2013	2014	2015
CPI (Seattle July to June CPI W)	As Proposed	2.1%	2.3%
COLA	As Proposed	2.0%	2.3%
Benefits	As Proposed	4.0%	4.0%
Retirement	As Proposed	11.3%	2.4%
GF Transfers	As Proposed	2.9%	3.1%
CIP GF Transfers	As Proposed	10.0%	10.0%
Blended General Fund Growth Rate	As Proposed	4.0%	4.4%

- (f) 2013 CIP GF Transfers

Major Maintenance	5.3
Building Repair and Replacement	1.7
KCIT CIP	3.0
Total	10.0

- (g) The debt service schedule for 2011 - 2015 is based on the following table:  
(in millions)

Debt Service Elements	2011	2012	2013	2014	2015
Existing Debt Issues (excludes Green River)	23.6	26.4	24.0	21.8	21.3
New Debt Issuance (MRJC, FMD)			0.5	0.5	0.5
Debt contingency for new issues				0.5	0.5
Total Debt Service	23.6	26.4	24.5	22.8	22.3

Based on current projections, projected debt service expense will not exceed the 6% debt limit in 2013, 2014, or 2015.

## ECONOMIC AND REVENUE FORECAST

- (h) Potential additional costs include expenditures detailed in the 2nd supplemental as well as several stand alone supplementals proposals that have been transmitted. This also includes assumptions about the final 2012 supplemental request, which is still under review.
- (i) The 2013 Proposed Budget includes a 1.5% underexpenditure assumption in the majority of GF operating budgets. This is budgeted directly in appropriation units.

An additional underexpenditure assumption of \$10 million for all General Fund budgets is included to reflect historical trends. This assumption is under constant review and will be updated as information becomes available.

- (j) The financial plan assumes ongoing cost savings in 2014 and 2015. These efficiencies will be the result of continuous improvement efforts, space consolidation, increased revenue, technology investments, cost avoidance, working with labor partners, and budgeting efficiencies.
- (k) Fund balance set aside in reserve is used to offset known future increases in costs, mitigate known risks, or to fund specific programs in the future. Designations and subfund balances reflect fund balance associated with dedicated revenue streams. Ending undesignated fund balance is fund balance set aside for unknown financial and operation risks.
- (l) Designations and subfund balances include the following for each of the years (in millions):

	<b>2011 Actuals</b>	<b>2012 Adopted</b>	<b>2012 Revised</b>	<b>2013 Proposed</b>	<b>2014 Projected</b>	<b>2015 Projected</b>
Loans	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)
Crime Victim Compensation Program	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Drug Enforcement Program	(2.1)	(2.8)	(2.1)	(2.1)	(2.1)	(2.1)
Anti-Profitteering Program	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Dispute Resolution	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Real Property Title Insurance	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Inmate Welfare Fund Balance	(3.5)	(2.9)	(4.1)	(3.6)	(3.0)	(2.4)
Ex-CJ Fund Balance	(1.0)	(0.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total	(10.7)	(9.8)	(11.3)	(10.7)	(10.2)	(9.5)

- (m) This reserve is for unanticipated new or expanded capital projects. These projects would be part of a supplemental proposal and could be for technology, facilities, housing or other capital projects supported by the General Fund.
- (n) This reserve helps to transition unincorporated areas to cities. This reserves replaces the former Parks Partnership reserve.
- (o) Retirement rate increases in 2014-2017 are anticipated to outpace inflation. A reserve has been set up to partially offset the increase in the out years add to prepare for any large increases in the future.
- (p) The Innovation and Customer Service Reserve is intended to provide funding to support innovative delivery of county services. Projects that have a defined return on investment or enhance customer service will be prioritized.
- (q) The MIDD Buy Back Reserve is intended to support the criminal justice programs currently funded by the MIDD fund through sup plantation legislation authorized by the state. Fund balance is set aside in this reserve beginning in 2015.
- (r) The Emergent Criminal Justice (CJ) Reserve was funded at \$1.5 million in the 2011 Adopted Budget. This reserve has been spent.
- (s) The BNSF Reserve will cover the first year of operating costs related to ownership of the 20 mile eastside rail corridor. The reserve will cover the costs associated with managing the inventory of permits along the corridor, renewing existing permits and issuing new permits, and addressing encroachments. This reserve is not intended to cover any of the costs associated with direct maintenance or development of the corridor. It will be spent in 2012.
- (t) The reserve is intended to be used to address an anticipated short fall between budgeted revenue and Public Health's 2012-2014 infrastructure expense obligations as they relate to its various Public Health Centers. This reserve will be appropriated when the timing and costs of the moves are more clearly defined and will be drawn down as needed.

## ECONOMIC AND REVENUE FORECAST

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- (u) The KCSO Fleet Reserve was intended to offset the cost of vehicle replacement. It is expected to be spent in 2012.
- (v) The Sales Tax Reserve is eliminated in 2013.
- (w) In the 2012 budget, Facilities Maintenance Division (FMD) identified \$2.0 million in projects that are currently in design and will not require appropriation for construction until mid-2012. \$1.5 million of the reserve will be used in 2012. \$500,000 is proposed to carryover into 2013.
- (x) The COLA reserve was used to support the impact of 2013 COLA, which is 3.09%. It is not proposed for replenishment.
- (y) This proposed reserve sets aside funding for a one-stop property service center. This project is being explored by the Assessor's Office in consultation with multiple county departments. Appropriation will be contingent on the results of the planning process.
- (z) County policy requires undesignated fund balance of 6%-8% of certain revenues. The 2013 proposed budget sets the undesignated fund balance at 6.5%. There is an additional proposal to increase the Rainy Day Reserve to \$20 million using debt service fund balance.

### 3. Economic Development and How King County Impacts the Local Economy

One of the four service delivery goals of the King County Strategic Plan is to: “Encourage a growing and diverse King County economy and vibrant, thriving, and sustainable communities.” In addition, the King County Comprehensive Plan supports a long-term commitment to sustainable regional economic development and recognizes the importance of job opportunities to meet all skill levels. The County strives to provide the foundation for a prosperous, diverse, and sustainable regional economy – one in which the private sector and non-profit organizations can thrive and create jobs.

The foundation for a vibrant and sustainable economy consists of several elements. These include, but are not limited to, adequate public infrastructure, an educated and trained workforce, a favorable business climate with consistent and predictable regulations, land supply, research and advancing technology, affordable housing, available capital, recreational and cultural opportunities, and a healthy natural environment.

To ensure the provision of these elements, King County partners with businesses, economic development organizations, and other jurisdictions in efforts to grow the economy. The County provides infrastructure, business development, and workforce development products and services as part of its regional responsibilities. It also makes many other contributions to sustain the quality of life that attracts (and retains) businesses and a talented workforce to the region. A few of the Infrastructure, Business and Workforce Development programs are discussed below.

#### **Infrastructure Development**

Adequate and well-maintained public infrastructure is the lifeblood of a strong economy. Basic public services support employment growth and increased productivity. They also contribute to a high quality of life, which increasingly influences business location decisions. From roads, bridges, and airports that provide efficient mobility for freight and goods, to a transit system that reliably carries workers to their jobs, to wastewater treatment plants that protect the environment and enable industrial and commercial growth (including home-based businesses), to levees that protect businesses from flooding, to an E-911 system and emergency medical services that protect residents, public infrastructure is essential.

Two emerging projects highlight the contribution King County makes in this area.

*Children and Family Justice Center.* This project will construct a 137,700 square foot juvenile courthouse, a 96,600 square foot juvenile detention facility, a 440 stall parking garage, and community spaces on the existing 9.1 acre Youth Services Center site located in Seattle on the corner of 12<sup>th</sup> and Alder. These new facilities will provide a unified family court with space for co-location of programs and services for families of youth and an efficient detention facility that will have built in flexibility to respond to changes in the detention population, and improve visibility, security, and safety. The planning for this project will locate the new building in a manner that would allow for the potential sale of portions of the remaining properties not occupied by county uses. Based on the American Recovery and Reinvestment Act (ARRA) methodology this construction project, with a budget of \$210 million, will generate economic activity resulting directly or indirectly in over 2,000 jobs over the life of the project.

*Solid Waste Division Investment Program.* The Solid Waste Division is in the process of modernizing four regional transfer stations and multiple landfill construction projects. Over the six year planning horizon, these projects will cost approximately \$250 million. Over the six year period the investments in the transfer station system upgrade will create approximately 1,450 jobs. The investment in landfill will create another 350 jobs. In addition, the investment program will create indirect jobs, based on the additional demand for materials and induced jobs, due to the additional income circulating in the economy. It is also important to note that waste management and recycling jobs are often considered green collar jobs, which not only support the values of King County, but also create jobs for both low-skilled and highly-trained workers, thus supporting a balanced economy.

### **Business Development and Support**

King County has long supported a growing and diversified economy that provides business development opportunities throughout the county. Since 2004, King County has participated in developing and implementing “A Regional Economic Strategy for the Central Puget Sound Region.” This Strategy identifies actions and partnerships necessary to support the region’s industrial clusters with the greatest opportunity for business growth and job creation in King, Kitsap, Pierce, and Snohomish counties. These current clusters are Aerospace, Clean Technology, Information Technology, Life Sciences & Global Health, Transportation & Logistics, Military, Tourism, Business Services, Maritime, and Philanthropies.

In 2012, the King County Aerospace Alliance (KCAA) was convened to unite local jurisdictions, public sector groups, business and labor to strengthen the local aerospace industry. King County has over 300 aerospace companies that sustain over 47,000 jobs direct aerospace jobs. The alliance members are working together to understand King County’s position in the global aerospace industry, support and grow the local supplier network, train the next generation of aerospace workers and make it easier to do business across jurisdictions.

Similarly, the 2013 Proposed Budget includes \$15,000 to support the Washington Military Alliance. This group is developing support to retain Washington’s military installations during the next round of base closings.

Another King County initiative is the Rural Economic Strategies Program (RES) which supports the rural economy of King County. Traditional rural economic clusters are vital in supporting and diversifying the region’s economic base. RES works closely with rural businesses, the Agricultural Commission, the Rural Forest Commission and other partners to address economic needs. This includes initiating regulatory changes, assisting in public workshops or training classes, facilitating county interdepartmental coordination, and/or interacting with rural communities on economic development and visioning efforts.

### **Workforce Development**

The Employment and Education Resources section in the Department of Community and Human Services (DCHS), Community Services Division, collaborates with the economic development initiatives of King County in partnership with the Workforce Development Council, the school districts, technical colleges and the community at large. The King County Employment and Education Resources (EER) fund and its related programs within DCHS partners with the workforce development organizations in King County to prepare both youth and adults for career pathways leading to self-sufficiency.

As an one stop employment and education service hub, WorkSource Renton helps many different target groups remove barriers to success in education and work, so that they are prepared to participate productively in the workforce in King County and therefore are able to contribute to a diverse and thriving economy. Programs are tailored to the special needs of veterans, homeless families and individuals, offenders, gang affiliated youth, dislocated workers, high school dropouts and the general public.

A new Aerospace and Veterans Employment and Training Initiative is being launched by the Executive and the Council with some unspent funds from the expired 2006-2011 Veterans and Human Services Levy to assist current and returning veterans to reintegrate with the civilian labor force through the expanding opportunities of the aerospace/manufacturing sector. This initiative will help veterans identify and prepare for good career opportunities leading to self-sufficiency. WorkSource Renton will serve as the hub for these integrated services for veterans and the YWCA WorkSource Affiliate Downtown will provide services in Seattle. By coordinating the preparation and job placement of veterans with the growing demand in the aerospace/manufacturing industry, King County EER will directly respond to the priorities of the King County Aerospace Alliance.